

Message Text

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PAGE 01 BONN 04133 081746Z
ACTION SS-25

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FM AMEMBASSY BONN
TO SECSTATE WASHDC 6258
INFO USMISSION USBERLIN
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AMEMBASSY PARIS

C O N F I D E N T I A L BONN 04133

EXDIS

E.O. 11652: GDS
TAGS: EAIR, PGOV, PFOR, GW, UK, FR, US
SUBJECT: CIVAIR: PAN AM AND BRITISH AIRWAYS FARE INCREASE
PROPOSAL

REF: A. STATE 14188 B. BONN 894 C. BONN 1086

1. UK CIVIL AIR ATTACHE HANLEY TOLD EMBASSY MARCH 7 OF DISCUSSION HE HAD HAD PREVIOUS DAY WITH TONY CARO, BERLIN MANAGER OF BRITISH AIRWAYS, ON SUBJECT OF FARE INCREASE FOR IGS SERVICES. CARO SAID BA AND PAN AM WOULD REQUEST INCREASE AS OF APRIL 1, 1977. THE AMOUNT WAS YET TO BE DETERMINED. BA WANTS SEVEN AND A HALF PERCENT, BUT PAN AM SAID THAT CAB RULE THAT AN AIRLINE SHOULD ONLY EARN A TWELVE PERCENT RETURN ON INVESTMENT WOULD LIMIT ITS REQUEST TO FIVE PERCENT. THE TWO AIRLINES ARE TO MEET TO RECONCILE THEIR DIFFERENCES AND WORK OUT A JOINT PROPOSAL. BA WILL SUBMIT ITS STATISTICS TO THE UK CIVIL AVIATION AUTHORITY (CAA) WITH THE HOPE THAT THE CAA WILL AGREE THAT THE PROPOSED FARE INCREASE IS REASONABLE. NEXT THE PROPOSAL, EITHER
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JOINTLY OR SIMULTANEOUSLY WITH THAT OF PAN AM WILL BE PRESENTED TO THE ALLIED CAA'S.

2. HANLEY SAID HE TOLD CARO THAT, EVEN IF EVERYTHING WENT SMOOTHLY, NO INCREASE WAS LIKELY BEFORE JULY 1. HE REMINDED CARO THAT CAA'S HAD COMMITTED THEMSELVES TO PROVIDE STATISTICS ON IGS OPERATIONS TO THE FRG IN

ADVANCE OF AND INDEPENDENT FROM A FARE INCREASE PROPOSAL. BEFORE UNDERTAKING THIS COMMITMENT HE HAD CHECKED WITH BA AND BEEN GIVEN TO UNDERSTAND THAT THE AIRLINE WAS ABLE AND WILLING TO PROVIDE THE REQUESTED INFORMATION. FOR BA NOW TO MAKE A FARE INCREASE PROPOSAL WOULD BE A "BREACH OF FAITH."

3. CARO SAID THAT HE WOULD BRING HANLEY'S POINTS TO THE ATTENTION OF THE HEAD OF APPROPRIATE DIVISION OF BA.

4. HANLEY WILL REPORT HIS CONVERSATION WITH CARO TO LONDON AND WILL STRESS HIS FEELINGS ABOUT A BREACH OF FAITH.

5. PAN AM'S BEHAVIOR IN REGARD TO OUR REQUEST FOR STATISTICS HAS BEEN ROUGHLY THE SAME AS BA'S. REF A AUTHORIZED CAA TO HOLD UP PRESENTATION OF ANY PAN AM FARE INCREASE PROPOSAL UNTIL REASONABLE TIME AFTER STATISTICS HAD BEEN GIVEN TO THE FRG. CAA INFORMED THEN PAN AM MANAGER FOR GERMANY RUNNETTE IN JANUARY THAT THIS WOULD BE LIKELY TO HAPPEN. PRESUMABLY PAN AM IS PREPARED FOR SUCH A DELAY. FACT REMAINS, HOWEVER, THAT PAN AM LIKE BA SO FAR HAS FAILED TO MAKE GOOD ON ITS PROMISE TO PROVIDE INFORMATION.

6. COMMENT: WE, OF COURSE, ARE NOT EXPERTS ON FARES. HOWEVER, IT SEEMS TO US THAT IF PAN AM IS ABLE TO JUSTIFY ONLY A FIVE PERCENT INCREASE ON THE BASIS OF A TWELVE PERCENT RETURN ON INVESTMENT, IT WOULD NOT BE CONFIDENTIAL

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TOO DIFFICULT FOR PAN AM TO FOREGO A FARE INCREASE SO SOON AFTER ITS LAST REQUEST IN VIEW OF THE POLITICAL AND PSYCHOLOGICAL TRAUMA THAT MAY BE EXPECTED IF AN INCREASE IS APPROVED.
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